

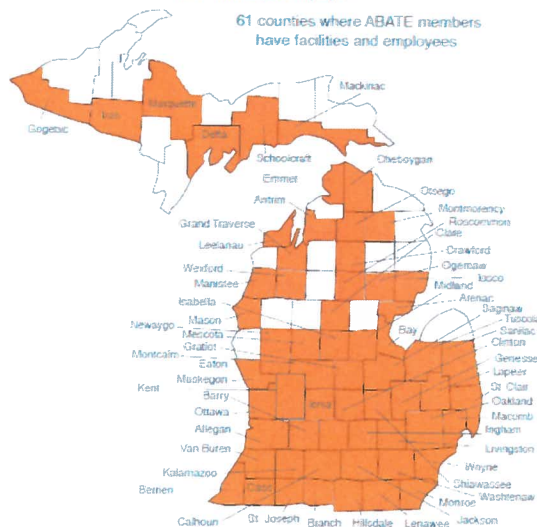
To represent the industrial viewpoint on energy and utility issues before all appropriate governmental bodies and other pertinent organizations which affect energy pricing, reliability and terms and conditions of service in Michigan.

ABATE Energy
Association of Businesses Advocating Tariff Equity

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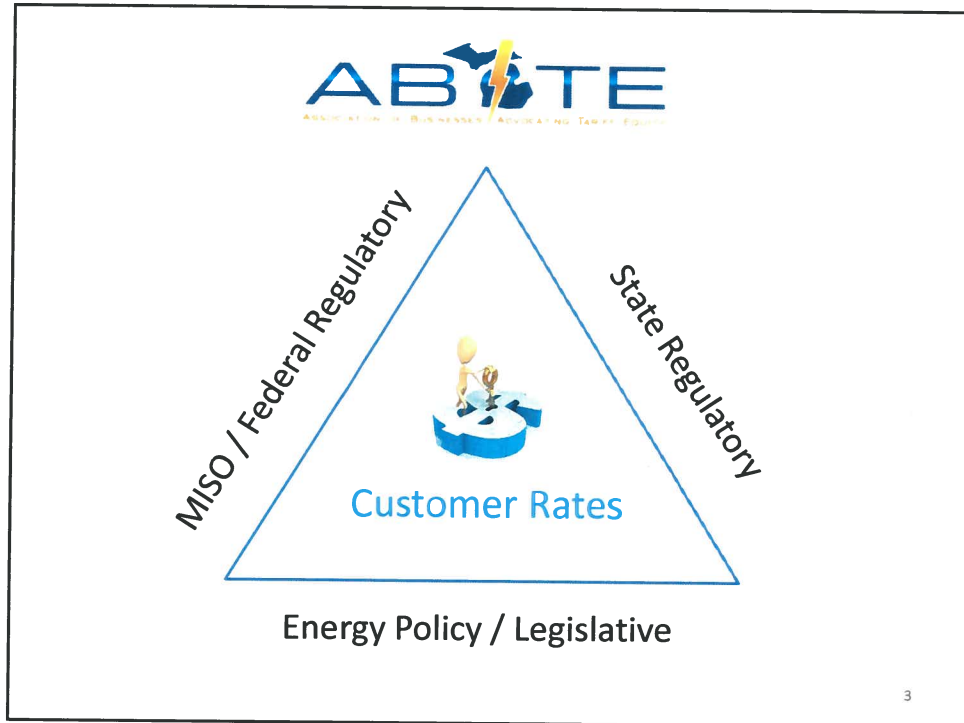
- More than \$3.5 billion in payroll
- More than \$79.2 million in taxes
- More than 98,000 employees

61 counties where ABATE members have facilities and employees



AK Steel Corporation
Arconic Inc.
Cargill
Corrigan Oil
The Dow Chemical Company
Eaton Corporation
Edw. C. Levy Co.
Enbridge Energy Limited Partnership
FCA US LLC
General Motors LLC
Gerdau Macsteel
J. Rettenmaier USA LP
Marathon Petroleum Corporation
Martin Marietta Magnesia Specialties
Metal Technologies, Inc.
MPI Research
Occidental Chemical Corporation
Praxair, Inc.
United States Gypsum
U.S. Steel Corp
WestRock
White Pigeon Paper

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LARA Public Service Commission
Department of Licensing and Regulatory Affairs

- Utility electricity rate cases
- Utility natural gas rate cases
- Power Supply Cost Recovery cases
- Standby Power
- Demand Response
- Integrated Resource Planning

The illustration shows two pots, each with a flame underneath and steam rising from it. A horizontal arrow points from the left pot to the right pot, with the text '60 mins' written above it.

Cost of Service Allocation and Rate Design



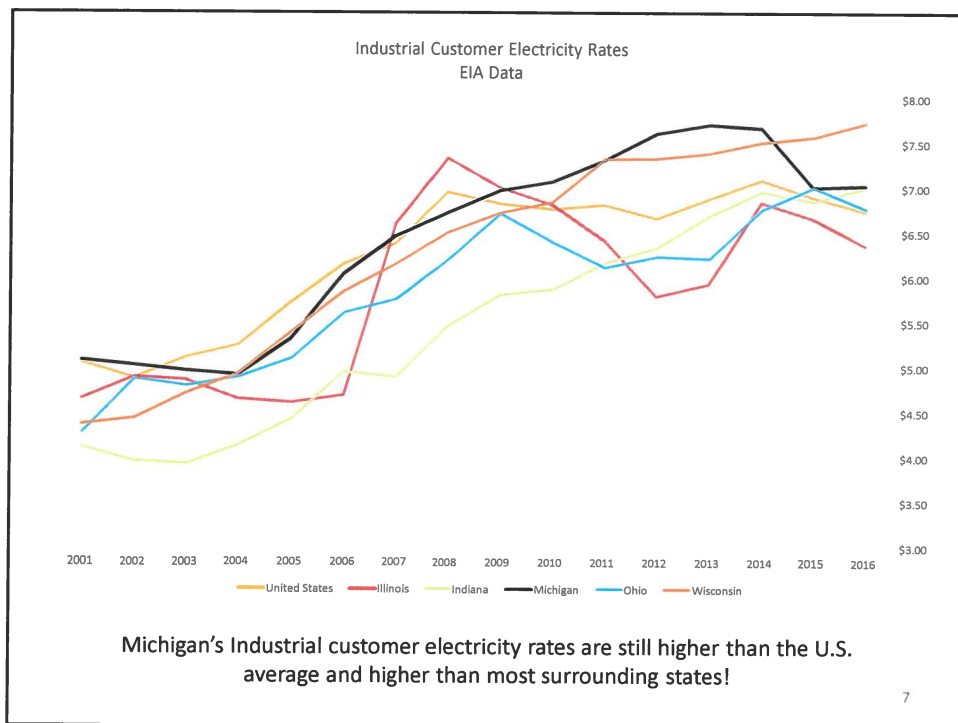
- Resource Adequacy (Planning Reserve Margin Requirement / Local Clearing Requirement)
- Behind the meter generation rules
- Transmission Service and Cost
- MISO Capacity Auction
- Wholesale energy and balancing market
- Demand Response

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Energy Policy / Legislative



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ABATE Energy Policy Recommendations

However...



Michigan must do better regarding competitive rates and the solution is not complicated. In order to achieve competitive energy pricing, Michigan needs:

- 1) **Effective regulatory cost control, and**
- 2) **Market competition (Electric Choice) where energy suppliers must compete for our business.**

Continuous Improvement

Although last year's legislature passed significant energy legislation, which the Governor signed into law, it does not mean all is done. Just as we do in the businesses that the ABATE members operate, we encourage the legislature to measure, verify and make continuous improvements where needed.

ABATE Energy Policy Recommendations for Competitive Rates



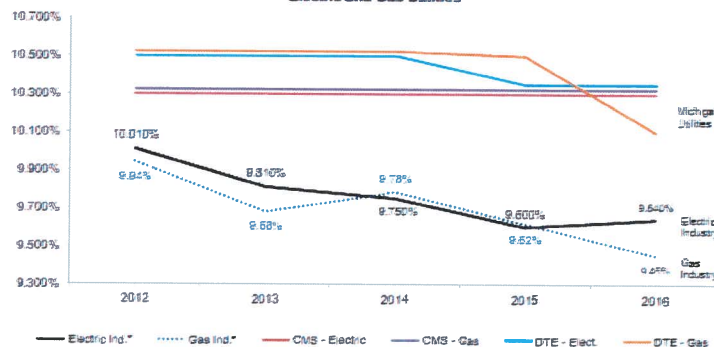
- Stop Utility Over Earning
- Use Actual Cost in Setting Utility Rates
- Provide Actual Refunds
- Expand Electricity Choice
- Eliminate Energy Optimization Natural Gas Volumetric Charges
- Eliminate Revenue Decoupling for Natural Gas
- Promote Self-Generation / Co-generation
- Use Securitization for any Early Retirement of Coal Generation Facilities
- Establish Qualifications and a Selection Process for Gubernatorial Appointments to the Public Service Commission

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Stop Utility Over Earning



Figure 1
Authorized Returns on Equity
Electric and Gas Utilities



Source and Note:
Regulatory Research Associates, Inc., Regulatory Focus, Major Rate Case Decisions -- January - September 2016, October 14, 2016 at pages 5 and 6.
SNL Financial, Electric and Gas Rate Case History, downloaded 1/17/2017.
* The data for 2016 Electric and Gas Industry includes the period Jan - Sep.
Note: CMS - Gas case in 2016 was settled with ROE blackboxed, using 2015 authorized return.

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Stop Utility Over Earning



TABLE 1
Revenues Paid by Michigan Retail
Customers to Support Excessive Profits
Impact ROE >10% Down to 9.5%
(\$ Millions)

| <u>Description</u> | <u>ROE</u> <u>Award</u> <u>(1)</u> | <u>Excess</u> <u>Revenue</u> <u>Amount</u> <u>(2)</u> | <u>% of</u> <u>Increase</u> <u>(3)</u> | <u>Total</u> <u>Bill Cost</u> <u>(4)</u> |
|--------------------|--|--|--|--|
| Consumers Electric | 10.3% | \$52 | 41% | 1.3% |
| Consumers Gas | 10.1% | \$19 | 26% | 1.1% |
| DTE Electric | 10.3% | \$69 | 29% | 1.5% |
| DTE Gas | 10.1% | \$15 | 12% | 1.2% |
| Total | | \$155 | 28% | 1.3% |

As shown in the Table 1, in 2015 and 2016, these increased ROEs resulted in approximately \$155 million per year of additional charges to retail customers. This means in just two years Michigan retail customers have paid \$310 million more relative to the similar utilities across the country. This also means that about 30% of the rate increases approved by the Michigan Public Service Commission have been caused by above-average profit allowances which results in customers' bills being almost 1.3% higher every month.

Source: Brubaker & Associates

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Stop Utility Over Earning



TABLE 2
S&P Ratings by Rating

| <u>Description</u> | <u>2016</u> | <u>Consumers</u> | <u>DTE</u> |
|--------------------|-------------|------------------|------------|
| Regulated | | | |
| A or higher | 5% | | |
| A- | 27% | | |
| BBB+ | 35% | BBB+ | BBB+ |
| BBB | 22% | | |
| BBB- | 8% | | |
| Below BBB- | 3% | | |
| Total | 100% | | |

Source: EEI Q3 2016 Credit Ratings, Tab V –
S&P Rating by Comp. Category

Source: Brubaker & Associates

While authorized ROEs have been much higher for Michigan utilities relative to the rest of the country, they have not resulted in stronger credit ratings, better access to capital, or more attractive capital costs. Indeed, as shown in Table 2, DTE and Consumers' bond ratings are merely in line with industry average bond ratings. Thus, there has been no measurable benefit to customers in allowing the utilities to earn these higher ROE's.

- ✓ **Pass legislation that requires the Michigan Public Service Commission to:**
 - a) Establish utility authorized rates of return in line with the industry average**
 - b) Hold a show cause case which specifically determines the reason and requires corrective action if a utility has over-earned their authorized rate of return.**

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Use Actual Cost in Setting Utility Rates



The publicly owned utilities in Michigan are regulated monopolies. As such they are provided the opportunity to recover their costs and earn an authorized rate of return. In setting the customer rates for these utilities, the commission should be required to use cost information from a historical test year with adjustments for only known and measurable changes. This provides greater protection for customers while still providing cost recovery for the utilities. Allowing rates in recent cases to be set on uncertain, projected costs has only resulted in higher rates for customers and the utilities earning more than their authorized rate of return.

In a recent electricity rate case filed by one of the major investor owned utilities in Michigan:

The word "Projected" is used 373 times in testimony!

- ✓ **Amend MCL 460.6a(1) to require utilities to use actual costs, which are only adjusted for known and measurable changes, in setting rates.**

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Provide Actual Refunds



Although PA341 of 2016 has eliminated the utilities' ability to self-implement rates - which had resulted in the need for many refunds due to overearnings over the past 8 years - there are still instances where customers are owed significant refunds from utility over-charges. The PSC practice for these refunds has been to estimate sales in a prospective month and then calculate a refund factor to be applied to all sales made within that month. This method makes it impossible to return the exact amount of over-charges plus interest to individual customers because of the inevitable mismatch between actual sales in that one month and the over-charges actually paid. This is an unfair result for customers, many of whom have waited long periods of time to receive any refund at all. With available technology, it should be straight forward for an utility to refund to a customer the amount overpaid. Providing actual refunds is both equitable and practical.

- ✓ **Amend MCL 460.6a(1) to require utilities to issue actual refunds to customers.**

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Expand Electricity Choice



In 2008, the legislature made significant changes to Michigan's energy law with the enactment of PA295 of 2008 and PA286 of 2008. PA 286 imposed a 10% cap on participation in Michigan's "electric choice" program established under PA141 of 2000. In 2017, PA341 was enacted and it established new requirements for retail choice suppliers to ensure generation resource adequacy and reliability. Therefore, there is no reason or need for a cap on participation in retail choice. The utilities should be required to compete against other non-utility suppliers to ensure that electricity rates are competitive. The utilities will continue to provide and profit from their transmission and distribution business (as well as all of the generation business that they win through competition). Additionally, the current cap on electricity choice curtails economic development in Michigan so its elimination will help grow the economy. The 10% cap should be eliminated or at least increased to enable more customers to participate in electric choice.

- ✓ **Amend MCL 460.10a(1)(b) to eliminate or increase the 10% cap on participation in Michigan's electric choice program.**

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Eliminate Energy Optimization Natural Gas Volumetric Charges



Industrial customers are required to pay a volumetric natural gas energy optimization surcharge under PA342 with no ability to seek an exemption. Even though most manufacturing customers do not even purchase gas from the utilities, this volumetric charge on the delivery of the natural gas has resulted in significant energy optimization natural gas costs for manufacturers. The electricity energy optimization surcharges are a per-meter charge and industrial customers can seek an opt-out of the charges by establishing a "self-directed" energy optimization program. There is no reasonable basis to have a different structure for the natural gas energy optimization surcharge.

- ✓ **Amend MCL 460.1089 – 460.1093 to require per-meter natural gas energy optimization surcharges and allow for an industrial customer opt-out.**

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Eliminate Revenue Decoupling for Natural Gas



Advocates of utility “revenue decoupling” believe it will remove economic incentives that work against energy efficiency. The rate design for regulated utilities rewards utilities for selling more energy, while energy efficiency projects result in decreased energy sales. “Revenue decoupling” breaks – or decouples – the link between the amount of energy sold and the revenue realized by utilities, thereby supposedly removing the economic incentives against energy efficiency.

While the theory of revenue decoupling sounds good, the practice has not proven as successful when examined from the customer’s perspective, because decoupling mechanisms automatically increase customer rates if a utility’s sales are lower than projected regardless of whether the utility still earned its authorized rate of return. The utility rate case timing process established in Public Act 341 already allows for a timely cost recovery and earnings opportunity for utilities. Thus utilities are able to make adjustments for any lost sales/revenue from energy efficiency efforts as part of their overall utility rate case review. Therefore, there is no need for separate decoupling mechanisms.

- ✓ **Amend MCL 460.1089 to eliminate utilities’ use of revenue decoupling mechanisms for natural gas providers.**

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Promote Self-Generation / Co-generation



Many industrial customers have a need for both electricity and steam for the operation of their facilities. Electricity and steam generation from co-generation facilities is very efficient. Additionally, many times in order to satisfy the steam demand there is excess electricity generated. Currently, industrial customers are limited to only being able to receive electricity supply from an efficient co-generation facility if that facility is located at their site. This means that even if there are several industrial companies within close proximity to each other, the current law prevents these companies from receiving electricity supply from an off-site centrally located efficient co-generation facility.

- ✓ **Amend MCL 460.10a(12) to expand the definition of self-generation to include efficient co-generation that is located off-site within close proximity to industrial customers.**

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Use Securitization for any Early Retirement of Coal Generation Facilities



New EPA rules, such as the Cross-State Air Pollution Rule, electric utility steam generating unit (“EGU”) maximum achievable control technology (“MACT”) emissions rules, Section 316b cooling water intake regulations, and coal combustion by-products or residue rules are forcing electric utilities to shut down coal-fired generating plants. Substantial savings can be achieved for full service customers (i.e., customers who purchase generation from the utilities) by the utilities utilizing securitization bonds to finance the undepreciated balance of any generating plants that are retired from service, if the decision to retire them is reasonable. Securitization is the process by which a utility, following the issuance of a financing order by the PSC, replaces relatively high-cost debt and equity with lower-cost debt in the form of securitization bonds. These savings will benefit the full-service customers of the utility (i.e. customers who purchase generation from the utilities), while holding the utilities harmless. Securitization is a financing tool that the utilities have used before.

- ✓ **Create legislation requiring that Michigan electric utilities utilize securitization bonds to finance the undepreciated balance of any generating plants that are retired from service, if the decision to retire them is reasonable.**

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Establish Qualifications and a Selection Process for Gubernatorial Appointments to the Public Service Commission



Given the importance and impact that a Commissioner’s decision can have on the energy rates and hence the economy of Michigan, it is imperative that we have qualified people serving in these positions. Michigan law presently sets forth certain qualifications for Commissioners, but those qualifications were last amended in over 60 years ago. The Commissioner selection process could be significantly updated and improved to meet the Commission’s current public service mission and goals.

We need a formal and transparent process to select qualified public service commissioners.

- ✓ **Establish a set of qualifications for Public Service Commissioners.**
- ✓ **Establish a Public Service Commissioner selection process consisting of:**
 - **Formation of an independent selection committee that would interview and recommend three possible candidates that meet with Commissioner qualifications**
 - **Governor selects and appoints a Commissioner from the selection committee candidates.**

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